Pediapharm inc.

Canada's Leading Pediatric Pharmaceutical Company

MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE THREE-MONTH PERIODS ENDED JUNE 30, 2017

DATED AUGUST 24, 2017

SCOPE OF THIS MANAGEMENT DISCUSSION & ANALYSIS AND NOTICE TO INVESTORS

This management discussion and analysis of financial position and results of operations ("MD&A"), is prepared as of August 24, 2017, and complements the unaudited condensed interim consolidated financial statements of Pediapharm Inc. ("Pediapharm" or the "Company"), for the three-month period ended June 30, 2017, which are compared to the three-month period ended June 30, 2016.

All financial information has been prepared in accordance with International Financial Reporting Standards ("IFRS") and all amounts are in Canadian dollars unless otherwise indicated. This MD&A should be read in conjunction with the information contained in the audited consolidated financial statements of the Company and the notes thereto for the twelve-month period ended March 31, 2017.

The unaudited condensed interim consolidated financial statements and the MD&A have been reviewed by the audit committee and approved by the Company's Board of Directors on August 24, 2017. These documents and more information about the Company are available on SEDAR at www.sedar.com.

FORWARD LOOKING STATEMENTS

Certain statements made in this MD&A are forward-looking statements or information. The Company is hereby providing cautionary statements identifying important factors that could cause the Company's actual results to differ materially from those projected in the forward-looking statements. Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events or performance (often, but not always, through the use of words or phrases such as "may", "is expected to", "anticipates", "estimates", "intends", "plans", "projection", "could", "vision", "goals", "objective" and "outlook") are not historical facts and may be forward-looking and may involve estimates, assumptions and uncertainties which could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements. In making these forward-looking statements, the Company has assumed that the current market will continue and grow and that the risks listed below will not adversely impact the business of the Company. By their nature, forward looking statements involve numerous assumptions, inherent risks and uncertainties, both general and specific, which contribute to the possibility that the predicted outcomes may not occur or may be delayed. The risks, uncertainties and other factors, many of which are beyond the control of the Company that could influence actual results include, but are not limited to: future capital requirements and dilution; intellectual property protection and infringement risks; competition (including potential for generic competition); reliance on key management personnel;. Pediapharm's ability to implement its business plan; regulatory approval by the Canadian Health authorities; product reimbursement by third party payers; patent litigation or patent expiry; litigation risk; stock price volatility; government regulation; potential third party claims. The Company's expected revenue in the Future Outlook section is based on historical revenue growth. Further, unless otherwise noted, any forward-looking statement speaks only as of the date of this MD&A, and, except as required by applicable law, the Company does not undertake any obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for management to predict all such factors and to assess in advance the impact of each such factor on the business of the Company, or the extent to which any factor or combination of factors may cause actual results to differ materially from those contained in any forward-looking statement.

KEY HIGHLIGHTS-PERIOD ENDED JUNE 30, 2017

In the three-month period ended June 30, 2017, the Company achieved **record quarterly revenue** of $2,465,550 (three-month period ended June 30, 2016 - $893,161), representing an increase of 176% including:

- 24% increase from NYDA®
- 12% increase from Naproxen Suspension
- Revenue from Relaxa™ which was in line with Management's estimate of approximately $3 million on an annual basis
- Revenue from Rupall™, launched in late January 2017, which has significantly exceeded Management's original estimate by more than 40%. Management now estimates the peak sales of Rupall™ will reach $10-12 million in 5 to 7 years.
- Revenue from Otixal, launched in May 2017, which were in line with Management's estimate.

The revenue growth of 176% was achieved with a 74% increase in selling and administrative expenses. Due to Rupall and Otixal initial launch expenses, selling and administrative expenses increased significantly as compared to last year. In upcoming quarters, increases in selling and administrative expenses are expected to be minimal when compared to last year, unless Management sees specific opportunities where additional expenses would generate significant incremental revenue. The Company's plan is to bring the Company into a positive operating cash flow situation for the year ended March 31, 2019.

On June 30, 2017, the Company closed a non-brokered private placement (the offering) of units of the Company (the units). Pursuant to the offering, 9346-4626 Québec Inc., a private company operating as Transican (the subscriber) subscribed for 14,705,883 units, at a price of $0.34 per unit, for aggregate proceeds to the Company of $5,000,000. The subscriber is owned by Mr. Gerard Leduc, a globally known pharmaceutical executive. Each unit comprises one common share in the capital of the Company (a common share) and 1/2 of one common share purchase warrant of the Company (a warrant). Each whole warrant entitles the subscriber to purchase one common share at a price of $0.51 per share until May 24, 2020. No commissions or fees were paid in connection with the offering, other than $16,758 in legal fees. The net proceeds of this Offering will be used to secure new business opportunities as well as to accelerate the growth of the Company's recently launched products namely, Rupall™ and Otixal™.

The Company has net working capital of over $7.3 million as of June 30, 2017.

The Company now has over $2.3 million in intangible assets as a result of exclusive in-licensing or distribution agreements it has signed since it started. Of that amount, approximately $2 million is related to Rupall, Otixal and Cuvposa, which have just started to generate revenue due to the fact they have either recently been launched, or in Cuvposa's case, its dossier is presently being reviewed by Health Canada.

SUBSEQUENT EVENTS

The Cuvposa dossier is progressing as expected and so, the Company still expects a decision from Health Canada before the end of October 2017.

NON-IFRS FINANCIAL MEASURES

EBITDA AND ADJUSTED EBITDA

EBITDA and Adjusted EBITDA are non-IFRS financial measures. The term EBITDA (earnings before interest, taxes, depreciation and amortization,) does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement IFRS measures by providing a further understanding of operations from management's perspective. The Company defines Adjusted EBITDA as earnings before financing costs, interest expenses, income taxes, interest income, depreciation of property and equipment,

amortization of intangible assets, non-cash share-based compensation, income from sale of asset and impairment of intangible assets. The Company considers Adjusted EBITDA as a key metric in assessing business performance and considers Adjusted EBITDA to be an important measure of operating performance and cash flow, providing useful information to investors and analysts. Adjusted EBITDA for the three-month period ended June 30, 2017 was ($697,096) compared to ($761,465) for the three-month period ended June 30, 2016. The improvement is mainly due to the increase in gross profit driven by a 176% increase in revenue. This was somewhat offset by the additional selling and marketing expenses related to the initial launch of Rupall and Otixal.

	For the 3-month period ended June 30, 2017 $	For the 3-month period ended June 30, 2016 $
Net Income (Loss) and Comprehensive Income (Loss)	(1,117,928)	1,442,796
Add Back:		
Depreciation & Amort. (property, equipment, intangible assets)	44,912	30,351
Amortization of financing fees	41,352	32,447
Interest expenses	166,833	166,836
Other non-cash finance costs	77,720	62,068
Interest income	(5,738)	(12,364)
EBITDA	**(792,849)**	**1,722,134**
Income from sale of assets	-	(2,570,200)
Share-based compensation	95,753	86,601
ADJUSTED EBITDA	**(697,096)**	**(761,465)**

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FUTURE OUTLOOK

The Company has recently launched two new products: Rupall™ and Otixal™. While Rupall™ has only been launched in late January 2017, Management is closely monitoring Key Performance Indicators ("KPIs") such as number of physicians prescribing Rupall™, and is very pleased with the results so far. These early results, combined with the on-going positive feedback from key opinion leaders in allergy, confirm Management's estimate that Rupall™ has an annual peak sale potential of $10-12 million within 5-6 years. Regarding Otixal™, which was launched in mid-May 2017, the Company estimates an annual peak sale potential of $4 million within 5-6 years.

At the same time, the Company continues to execute its commercial plan with existing products, such as NYDA®, a revolutionary treatment indicated for eradication of head lice and its eggs, and Relaxa™, an osmotic laxative used to treat constipation. NYDA® reached approximately $4,200,000 in revenue in fiscal 2017, is expected to reach over $5,000,000 in fiscal 2018 and has the potential to achieve annual peak revenues of $6,000,000 to $8,000,000 within the next two years (IMS data and Management's estimate). Relaxa™ is on pace to reach approximately $3 million of revenue on an annual basis.

With NYDA®, Naproxen Suspension and Relaxa™ alone, the Company is confident to generate approximately $8.5 million of revenue in fiscal 2018 (year ended March 31, 2018). This does not include revenue from Rupall™ and Otixal™.

With its existing solid infrastructure in place, Management estimates that increases in selling and administrative expenses will be minimal even with its projected substantial revenue growth in quarters and years to come. Management therefore estimates that the Company will be in a positive operating cash flow situation for the year ended March 31, 2019.

Pediapharm has a product pipeline of secured exclusive agreements which Management believes will enable the Company to reach annual revenue of $30,000,000 to $35,000,000 within the next 5-6 years along with projected EBITDA of approximately 30% to revenue. The projected peak sales forecast is based in using IMS data and the Management's estimate in the market share to be captured for each of the product. The following represents projected peak sales for the main products:

PRODUCT	INDICATION	EST. ANNUAL PEAK SALES (CDN$) (2) (3)	LAUNCH DATE OR EST. LAUNCH DATE
NYDA®	Head lice treatment	$6-8M	2012
Relaxa™	Occasional constipation	4-6M	Acquired by Pediapharm in September 2016
Naproxen suspension	Juvenile Arthritis – Medical Pain Conditions	1-2M	Re-launched by Pediapharm in March 2015
Rupall™	Symptoms of Allergy - Urticaria	10M-12M (revised from 8M-10M)	January 2017
Otixal™	Ear Infection	4M	May 2017
Cuvposa™ (1)	Severe Drooling – Cerebral Palsy	5M	UNDER HC REVIEW – Est. Launch: Dec 2017 (4)
TOTAL		30-35M	

(1) Canadian License which requires Health Canada Approval
(2) Estimated Annual Peak sales is usually achieved within approximately 5 to 7 years of a product launch
(3) Based on Market Data (IMS) and Management's estimates
(4) Based on Health Canada's timelines regarding approval of submitted files

Now that Pediapharm has positioned itself with a strong portfolio of products as shown above, for which all of the regulatory investments are behind, the Company's core strategy regarding business development has recently evolved to focus more on acquisitions of products with existing sales and on co-promotion for products already approved in Canada. The key objective is to generate profitability in a timely fashion while waiting for Health Canada's decision on Cuvposa™, which is expected before October 2017. In parallel, Pediapharm will still assess additional exclusive licensing agreements (commonly known as "in-licensing") as well as potential product acquisitions.

In summary, the Company has a solid cash position to execute its business plan, including the recent launches of Rupall™ in January 2017 and Otixal™ in May 2017. Furthermore, Pediapharm expects continuous revenue growth from Pediapharm's other branded products such as NYDA®, Naproxen Suspension and Relaxa™. Management estimates that the upcoming expected revenue growth and stable operational expenses will bring the Company into a positive operating cash flow situation for the year ended March 31, 2019. In parallel, the Company is in the process of assessing potential product acquisitions with the key objective to accelerate its strategy to generate positive cash flow over a short period of time. Pediapharm is a growth company in the high-margin specialty pharmaceutical industry,

and when opportunities arise to feed that growth, it may raise incremental capital to provide for necessary funding and flexibility.

CORPORATE STRUCTURE OF PEDIAPHARM

Pediapharm was incorporated in 2003 under the federal laws of Canada and commenced its operations in late 2007. The head office and registered and records office of Pediapharm are both located at 225 - 1 Place du Commerce, Verdun, Québec, H3E 1A2. Pediapharm has one wholly-owned inactive subsidiary, Pediapharm Licensing Inc., which was incorporated in 2011 under the laws of Ontario and was granted a drug establishment license by Health Canada. The registered office of Pediapharm Licensing Inc. is located at 4 Innovation Drive, Dundas, Ontario L9H 7P3.

BUSINESS OVERVIEW OF PEDIAPHARM

Pediapharm is a specialty pharmaceutical corporation that distributes innovative prescription medicines used to treat pathological conditions that mainly affect children from infancy to eighteen (18) years of age. The products that Pediapharm distributes originate from transactions whereby Pediapharm either acquires intellectual property rights through licensing agreements (commonly known as "in-licensing") that enables Pediapharm to register the drug products with Health Canada in order to commercialize them, or through outright acquisitions. Pediapharm does not produce, manufacture or develop products. For most products, Pediapharm licenses finished products and sells them. In the case of products owned by Pediapharm or where it controls the supply chain, the Corporation uses third-party manufacturers to produce the finished goods. Pediapharm may continue to acquire products that are already commercialized in Canada. Pediapharm also commercializes non prescription products (non-prescription drugs and medical devices) that are innovative and fulfill unmet medical needs of children but the core strategy remains on commercialising prescription (Rx) products.

Pediapharm presently does not develop any of its own products or own any patents, but may eventually partner in low-risk novel formulation development of known drugs in order to make them more amenable for pediatric use. Finally, although the core of the commercial approach is geared toward the children population, the Company also has opportunities to generate revenues in the adult market when its products are being prescribed for this patient population.

SELECTED FINANCIAL INFORMATION

FINANCIAL POSITION ANALYSIS

ASSETS

At June 30, 2017, total assets were $11,734,895 as opposed to $7,727,641 at March 31, 2017. The increase is mainly due to the $5,000,000 non-brokered private placement closed in June 2017. Furthermore, due to seasonality, increased revenue and new product launches, both accounts receivable and inventories have increased substantially. As revenue from Rupall™, Otixal™ and from the recently launches new Relaxa™ skus increase, Management estimates that inventory levels, while impacted by seasonality due to the Company's product portfolio, will generally stabilize at lower levels for the remaining of the current fiscal year.

LIABILITIES

At June 30, 2017, total current liabilities were $2,035,299 compared with $2,108,184 at March 31, 2017. Accounts payable and accrued liabilities have slightly decreased and, at June 30, 2017 as well as at March 31, 2017, there is approximately $166,000 in interest payable related to the March 30, 2015 private placement of secured, convertible debenture for aggregate gross proceeds of $5,500,000. At June 30, 2017, total long-term liabilities were $4,442,893 compared with $4,323,821 at March 31, 2017, as a result of the March 30, 2015 private placement of secured, convertible debenture interest accretion.

EQUITY
At June 30, 2017, Shareholders' equity was $5,256,703 compared with $1,295,636 as at March 31, 2017. The increase is mainly due to the $5,000,000 non-brokered private placement closed in June 2017, which was somewhat offset by the net loss during the three-month period ended June 30, 2017.

OPERATING RESULTS ANALYSIS

	June 30, 2017 (3 months)	**June 30, 2016 (3 months)**
Revenue from Products	$2,462,845	$811,246
Revenue from Commissions	2,705	81,915
TOTAL Revenue	2,465,550	893,161
Gross Profit	1,287,049	603,549
Selling and administrative expenses	2,134,515	1,487,524
Other Income	-	2,570,200
Operating profit (loss)	(837,761)	1,691,784
Net profit (loss)	(1,117,928)	1,442,796
Cash flow from (used in) operating activities	(2,074,693)	1,558,550
Cash flow from (used in) investing activities	(298,268)	-
Cash flow from (used in) financing activities	4,983,242	(374)

FINANCIAL INFORMATION COMPARISON

REVENUE
For the three months ended June 30, 2017, total revenue reached $2,465,550 compared with revenue of $893,161 in the three months ended June 30, 2016, representing a 176% increase. Revenue from NYDA® increased by 24%, while revenue from Pediapharm naproxen suspension increased by 12%. This was the first full quarter of Rupall which was launched in late January 2017. Management is very pleased with the results, which exceeded its initial expectations. This quarter also included revenue generated from Relaxa™ as a result of the September 19, 2016 transaction, which was in line Management's estimate.

GROSS PROFIT AND MARGIN
When comparing periods, in addition to focusing on gross profit dollars, it is also appropriate to focus on the gross margin as a percentage of revenue. Since there is no cost of sales related to revenue from commissions, the following gross margin percentages are calculated using cost of sales and revenue from products only. In addition to actual cost of goods and royalties paid to partners, gross margins are impacted by amortization of assets generating revenue, allowances for potential product returns as well as warehouse and logistics expenses.

For the three months ended June 30, 2017, gross profit reached $1,287,049, representing an increase of 113% (three months ended June 30, 2016 - $603,549).

Gross margin as a percentage of revenue was 52% (three months ended June 30, 2016 – 64%). The main reason for the lower gross margin percentage is related to Relaxa™, which has lower gross margins due to the nature of its product category. Over time, with the expected revenue growth from NYDA®, Rupall™ and Otixal™, Relaxa™ will represent a smaller percentage of revenue and hence, Management estimates that total gross margins as a percentage of revenue will improve and ultimately reach 60-70%.

SELLING AND ADMINISTRATIVE EXPENSES

For the three months ended June 30, 2017, selling and administrative expenses reached $2,134,515 (three months ended June 30, 2016 - $1,487,524). The main reason for the significant increase is related to the initial and strategic investments in supporting the January 2017 commercial launch of Rupall™ and the May 2017 commercial launch of Otixal™. Management believes these investments in Rupall™ and Otixal™ are key to the overall success of the Company.

In upcoming quarters, increases in selling and administrative expenses are expected to be minimal when compared to last year, unless Management sees specific opportunities where additional selling and marketing expenses would generate significant incremental revenue.

OTHER INCOME

In the three months ended June 30, 2017, there was nothing to report as other income. In the three months ended June 30, 2016 the Company received the second and final payment of US$2 million in cash ($2,570,200) from the sale of the US rights to the drug Naproxen Suspension in a transaction valued at approximately US$4.25 million.

OPERATING PROFIT OR LOSS

The operating loss for the three months ended June 30, 2017 was $837,761 compared to an operating profit of $1,691,784 in the three months ended June 30, 2016. In the three months ended June 30, 2016, the Company benefited from the aforementioned sale of its US rights to the drug Naproxen Suspension, which had a positive impact of $2,570,200.

NET PROFIT OR LOSS

The net loss for the three months ended June 30, 2017 was $1,117,928 compared to a net profit of $1,442,796 in the three months ended June 30, 2016. In both periods, the difference between operating loss and net loss is mainly due to approximately $260,000-$285,000 in finance costs. The majority of the aforementioned finance costs are related to the March 31, 2015 private placement of secured, convertible debentures of the Company and share purchase warrants of the Company for aggregate gross proceeds of $5,500,000.

ADJUSTED EBITDA

Adjusted EBITDA, defined in a previous section of the MD&A, for the three-month period ended June 30, 2017 was ($697,096) compared to ($761,465) for the three-month period ended June 30, 2016. The improvement is mainly due to the increase gross profit driven by a 176% increase in revenue. This was somewhat offset by the additional $600,455 in initial selling and marketing expenses related to the launches of Rupall and Otixal.

CASH FLOW ANALYSIS

Operating activities

For the three months ended June 30, 2017, cash flows used in operating activities was $2,074,693 compared with cash flows from operating activities of $1,558,550 for the three months ended June 30, 2016. In the three months ended June 30, 2017, the change in non-cash operating working capital items had a negative impact of $1,218,335 (three months ended June 30, 2016 – negative impact of $95,713). Of that amount, there is $705,873 in increased accounts receivable due to the significant revenue growth as well as $415,603 in additional inventories in support of the new product launches. In the three months ended June 30, 2016, the Company benefited from a payment in cash of $2,570,200 from the aforementioned sale of its US rights to the drug Naproxen Suspension.

Investing activities
Most of the investing activities for Pediapharm involve the purchase of licenses, as well as the amortization charges as per Pediapharm's accounting policies.

For the three and twelve months ended June 30, 2017, cash flows used in investing activities was $298,268 (three months ended June 30, 2016 – Nil). The majority of these amounts include down payments for licensing/distribution agreements and Health Canada filing fees.

Financing activities
In the three months ended June 30, 2017, cash flows from financing activities was $4,983,242 as a result of the aforementioned non-brokered private placement of $5,000,000. In the three months ended June 30, 2016, there was no significant activity to report.

SUMMARY OF ANNUAL RESULTS

The following tables set out financial performance highlights for the past three fiscal years.

	Twelve months ended March 31, 2017	Twelve months ended March 31, 2016	Twelve months ended March 31, 2015
Revenues from Products	$5,951,474	$3,504,696	$2,496,828
Revenues from Commissions	$255,665	$245,540	$571,855
Total Revenue	$6,207,139	$3,750,236	$3,068,683
Gross Profit	$3,428,746	$2,454,237	$2,105,862
Selling and Administrative Expenses	$6,803,665	$6,750,581	$7,063,517
Other Income	$2,570,200	$3,134,249	-
Operating Loss	($789,545)	($1,339,717)	($5,048,176)
Total Comprehensive Loss	($1,831,887)	($2,299,294)	($4,998,949)
Cash flow from (used in) operations	($1,258,273)	($1,286,300)	($4,575,755)
Cash & cash equivalents, end of period	$3,241,097	$4,941,494	$6,798,770
Assets	$7,727,641	$7,653,194	$9,072,290
Long-term liabilities	$4,323,821	$3,910,695	$3,583,146
Dividends	$0	$0	$0

SUMMARY OF QUARTERLY RESULTS

	Quarter ended	Quarter ended	Quarter ended	Quarter ended	Quarter ended	Quarter ended	Quarter ended	Quarter ended
	30-Jun-17	**31-Mar-17**	**31-Dec-16**	**30-Sep-16**	**30-Jun-16**	**31-Mar-16**	**31-Dec-15**	**30-Sep-15**
Revenues from Products	$2,462,845	$1,642,538	$1,694,294	$1,803,397	$811,246	$571,570	$935,498	$1,455,459
Revenues from Commissions	$2,705	$16,250	$78,750	$78,750	$81,915	$78,750	$87,041	$16,275
Total Revenue	$2,465,550	$1,658,788	$1,773,044	$1,882,147	$893,161	$650,320	$1,022,539	$1,471,734
Gross Profit	$1,287,049	$712,385	$891,893	$1,220,919	$603,549	$416,672	$689,358	$954,480
Selling and Administrative Expenses	$2,134,515	$1,871,811	$1,656,245	$1,788,085	$1,487,524	$1,763,543	$1,534,995	$1,688,949
Operating Profit (Loss)	($837,761)	($1,117,704)	($783,509)	($580,116)	$1,691,784	$1,910,221	($1,094,932)	($760,755)
Net Profit (Loss)	($1,117,928)	($1,388,613)	($1,047,750)	($838,320)	$1,442,796	$1,537,383	($1,288,020)	($954,011)
Cash flow from (used in) operations	($2,074,693)	($747,391)	($765,650)	($1,303,782)	$1,558,550	$1,731,941	($547,889)	($1,133,694)
Cash & cash equivalents, end of period	$5,851,378	$3,241,097	$4,115,394	$5,110,318	$6,499,670	$4,941,494	$3,351,101	$4,115,708
Assets	$11,734,895	$7,727,641	$8,493,672	$8,891,210	$9,542,163	$7,653,194	$6,164,096	$6,980,730
Long-term liabilities	$4,442,893	$4,323,821	$4,211,429	$4,105,344	$4,005,210	$3,910,695	$3,712,303	$3,669,124
Dividends	$0	$0	$0	$0	$0	$0	$0	$0

The main reasons explaining volatility in the Company's quarterly revenue are:

- The addition of Relaxa to the portfolio of Pediapharm's products, which occurred on September 19, 2016 as well as the launches of Rupall and Otixal, respectively launched in January and May 2017.
- The seasonality of NYDA which, prior to the addition of Relaxa, represented more than 85% of the Company's revenue. Historically, approximately 65-70% of revenue from NYDA is generated in the July-December period.

LIQUIDITY, CAPITAL RESOURCES AND SOURCES OF FINANCING

Pediapharm finished the three-month period ended June 30, 2017 with cash amounting to $5,851,378, which is in excess of future expected cash outflows for at least the next twelve months. With the exception of the interest payments related to the $5,500,000 convertible debenture, there are no substantial debt or contractual commitment for the next twelve months.

RELATED PARTY TRANSACTIONS

Transactions with related parties during the period and amounts due to or from these parties as at June 30, 2017 and 2016 are disclosed in these condensed interim consolidated financial statements.

All related party transactions, unless otherwise disclosed, occurred in the normal course of operations.

For the three-month period ended June 30, 2017, the Company incurred management fees in the amount of Nil (three-month period ended June 30, 2016 – $43,810) to a company owned by the current Chief Financial Officer of the Company, and no amount was included in accounts payable and accruals as at June 30, 2017 (June 30, 2016 – $25,500).

For the three-month period ended June 30, 2017, the Company incurred and paid legal fees in the amount of $18,037 (three-month period ended June 30, 2016 – Nil) to a firm of which a director of the Company is a partner.

CAPITAL RESOURCES
Pediapharm manages its capital structure and brings about adjustments related to changes in the economic environment and underlying risks of its assets. To preserve or modify its capital structure and to carry on the development and commercialization of technology and fulfill its various financial obligations, Pediapharm may issue additional shares or negotiate new loans.

CONTRACTUAL COMMITMENTS
The future minimum payments required under a long-term operating lease for office space are as follows:

	$
2018	121,088
2019	79,525

The Company also has commitments related to milestone payments it is required to pay to existing partners if some key milestones are achieved, such as Health Canada approvals.

DESCRIPTION OF THE SECURITIES
Pediapharm authorized share capital consists of an unlimited number of Pediapharm Common Shares. As of August 24, 2017, Pediapharm has 87,414,986 shares outstanding. There have been no dividends declared during the current period.

OFF -BALANCE SHEET ARRANGEMENTS
The Company has no off-balance sheet arrangements.

SIGNIFICANT ACCOUNTING POLICIES
The Company prepares its condensed interim consolidated financial statements in accordance with IFRS, which require management to make estimates and assumptions that affect the amounts of its assets and liabilities, the information provided with regard to future assets and liabilities as well as the amounts of revenues and expenses for the relevant periods.

The elements in the financial statements that require more use of estimates include valuation of stock options and warrants and impairment of fixed and intangible assets. Actual results may differ from these estimates, but management believes they will not result in material changes versus the results being presented. Readers are invited to refer to the audited consolidated financial statements for the year ended March 31, 2017 for a full description of the significant accounting policies of the Company at that date.

NEW STANDARDS NOT YET ADOPTED BY THE COMPANY

IFRS 9, Financial Instruments

The IASB previously published versions of IFRS 9 that introduced new classification and measurement requirements in 2009 and 2010 and a new hedge accounting model in 2013. In July 2014, the IASB released the final version of IFRS 9, which replaces earlier versions of IFRS 9 issued and completes the IASB's project to replace IAS 39, Financial Instruments: Recognition and Measurement. The standard is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Company is currently evaluating the impact of the standard on its consolidated financial statements.

IFRS 15, Revenue from Contracts with Customers

In May 2014, the IASB released IFRS 15, which supersedes IAS 11, Construction Contracts, and IAS 18, Revenue, and the related interpretations on revenue recognition: IFRIC 13, Customer Loyalty Programmes, IFRIC 15, Agreements for the Construction of Real Estate, IFRIC 18, Transfers of Assets from Customers,

and SIC 31, Revenue – Barter Transactions Involving Advertising Services. The standard is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Company is currently evaluating the impact of the standard on its consolidated financial statements.

IFRS 16 – Leases

In January 2016, the IASB released IFRS 16. The new standard eliminates the classification of leases as either operating or finance leases and introduces a single accounting model for the lessee under which a lease liability and a right-of-use asset is recognized for all leases with a term of more than 12 months. IFRS 16 also substantially carries forward the lessor accounting requirements; accordingly, a lessor continues to classify its leases as operating leases or finance leases. IFRS 16 supersedes IAS 17, Leases, and related interpretations. IFRS 16 is effective for annual periods beginning on January 1, 2019 for the Company, with earlier application permitted for companies that also apply IFRS 15. The Company is currently evaluating the impact of the new standard on its consolidated financial statements.

There are no other IFRSs or IFRIC Interpretations that are not yet effective that would be expected to have a material impact on the Company.

USE OF JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of condensed interim consolidated financial statements in conformity with IFRS requires the Company's management to make estimates and judgments that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. Management bases its estimates and judgments on historical experience and on various other assumptions that it considers reasonable. The areas involving a high degree of judgment or complexity, or other areas where assumptions and estimates are significant to the condensed interim consolidated financial statements are disclosed below. Actual results could differ from those estimates. Changes will be reported in the period in which they are identified.

a) Fair value of stock options and warrants

When the Company issues stock options and warrants, an estimate of fair value is derived for the instrument using the Black-Scholes option pricing model. The application of this option pricing model requires management to make assumptions regarding several variables, including the period for which the instrument will be outstanding, the price volatility of the Company's shares over a relevant time frame, the determination of a relevant risk-free interest rate and an assumption regarding the Company's dividend policy in the future. If different assumptions are used, the value derived for the instruments could be significantly impacted.

b) Impairment of intangible assets

Licences are recognized as intangible assets and are amortized over their useful lives when they meet the criteria for capitalization. Forecasted revenue and profitability for the relevant products are used to assess compliance with the capitalization criteria and to assess the recoverable amount of the assets. The useful life is determined by identifying the period in which substantially all of the cash flows are expected to be generated and generally amortization starts either from the date of the distribution approval granted by Health Canada or from the date of the licence contract signature, depending on the contract terms. Whenever licences are tested for impairment, the

determination of the assets' recoverable amount involves the use of estimates by management and can have a material impact on the respective values and ultimately the amount of any impairment.

c) Fair value of convertible debentures

The convertible debentures are a compound financial instrument under IAS 32, Financial Instruments: Presentation, and have both a liability and an equity component. The fair value of the consideration for the compound instrument must be split into its liability and equity components. The fair value of the consideration in respect of the liability component is first measured at the fair value of a similar liability that does not have any associated equity conversion option. This becomes the liability component's carrying amount at initial recognition, and the residual amount is allocated to the equity components. The most significant assumption used is the discount rate to fair value for the liability component. If other assumptions are used, the values derived could be significantly impacted.

d) Returns provision

The returns provision is calculated using management's best estimate of products that will ultimately be returned by customers. Estimation of the returns provision is based on historical experience with returned products and is deducted from revenues.

FINANCIAL INSTRUMENTS

Liquidity risk

Liquidity risk arises when a company encounters difficulties in meeting commitments associated with liabilities and other payment obligations. Liquidity risk is managed by maintaining adequate reserves and banking facilities and by closely monitoring forecast and actual cash flows. The Company is exposed to this risk mainly in respect of its accounts payable and accrued liabilities and convertible debentures.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company is exposed mainly to credit risk on its cash and cash equivalents and accounts receivable. The Company offers credit to its customers in the normal course of its operations. It continually assesses the credit risk of its customers and accounts for an allowance for doubtful accounts, if any. The credit risk on cash and cash equivalents is mitigated by the fact that they are in place with major Canadian financial institutions.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk on its fixed and floating interest rate financial instruments. Fixed rate instruments subject the Company to fair value risk, while floating rate instruments subject it to cash flow risk.

Disclosure controls and procedures

Disclosure controls and procedures have been established by the Company to ensure that financial information disclosed by the Company in this MD&A, the related annual consolidated financial statements and its interim filings are properly recorded, processed, summarized and reported to its audit committee, its Board of Directors and its shareholders.

Internal controls over financial reporting

As an issuer on the TSX Venture Exchange, the CEO and the CFO are not required to certify that they have designed and evaluated the effectiveness of disclosure controls and procedures and internal controls over financial reporting. Instead, the Company files a Certification of Annual Filings – Venture Issuer Basic Certificate that certifies the performance of a review of the information, no knowledge of misrepresentations and the fair presentation of the information in the annual filings.

Readers are referred to the more detailed information described in other disclosure documents filed with the applicable Canadian securities regulatory authorities and available at www.sedar.com.

Management of Pediapharm Inc.